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S E C R E T SECTION 01 OF 03 BAGHDAD 000856

SIPDIS

DOE FOR PERSON

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [IZ](#)

SUBJECT: OIL MINISTER HANGS IN THERE, BUT REFORMS NEEDED

REF: A. BAGHDAD 791

[B](#). BAGHDAD 651

[C](#). BAGHDAD 388

[D](#). BAGHDAD 148

Classified By: Acting Economic Counselor Ruth M. Hall, reasons 1.4(b,d)

[1](#). (C) SUMMARY: The Iraqi Cabinet has received recommendations from the "oil policy symposium" called by DPM Barham Salih to reform management of the petroleum sector, but postponed any decision until the week of March 29. In the meantime, the Ministry of Oil (MoO) continues the bid round process, although the due date for submission of bids has slipped by at least a month. In addition, MoO announced that it had invited a consortium of Chevron and France's Total to compete against Norway's StatOil Hydro to bid on development of the Nahr Bin Umar oil field. Possibly as a result of increasing criticism of his handling of Iraq's oil production, Oil Minister Shahrastani will promote the current MoO Inspector General, a petroleum engineer, to the position of deputy minister for the upstream sector, replacing someone who had been carrying out the responsibility in an acting capacity. END SUMMARY

Oil Policy Symposium -- Plusses and Minuses

[2](#). (C) DPM Barham Salih sent a written summary to participants of the main conclusions of the February 27-March 1 oil policy review symposium that was consistent with the verbal outline that PM Advisor and former Oil Minister Thamir Ghadban provided (ref B). Barham's transmittal letter noted that the conclusions had been "approved with the coordination of the Minister of Oil and the others who dealt with the seminar administration." (Interestingly, the letter also referred to the symposium as the "first" seminar, implying that others would follow.) The Cabinet was due to consider the recommendations at a March 22 meeting, but action was postponed by at least a week, due to Oil Minister Shahrastani's absence as head of an Iraqi delegation to France.

[3](#). (C) Also as noted ref B, Shahrastani was not unhappy with the symposium's outcome or recommendations, indicating that he felt that he had handled the event to limit its negative fall-out. Primarily, he personally attended the entire session and had a significant MoO contingent on hand. To be sure that he could attend, Shahrastani had, about two weeks before the event, requested a week delay, which had also probably reduced participation by international experts. Among the positive outcomes from the MoO's perspective, the symposium emphasized the importance of obtaining international oil company (IOC) investment and technology and endorsed the importance of the bid round continuing.

Symposium Recommendations

¶4. (U) Various other recommendations could also potentially enhance the MoO's operational efficiency by removing certain constraints. The symposium recommended that:

- The MoO and operating companies receive additional "financial resources" "for the development and training of staff";
- The operating companies receive "extraordinary powers" "to speed up implementation of plans and to overcome administrative bottlenecks and restraints";
- The MoO and operating companies be authorized to "contract with experts" and provide "competitive wages"; and
- The GOI should "improve living and working conditions in the oil sector" and the "upgrading of salaries and wages to workers in the oil sector."

Criticism of Oil Policy

¶5. (C) On the other hand, various participants' statements and the Prime Minister's closing remarks were directly or Qand the Prime Minister's closing remarks were directly or indirectly critical of the Oil Ministry's handling of oil policy, and the recommendation to form a federal "oil and gas council" and reconstitute the Iraq National Oil Company (INOC) would restrict MoO authority and freedom of action. In the event, however, an Oil Ministry Director General (DG) said that the Prime Minister's legal advisor Fadhil Mohammed Jawad was insisting that both actions had to be submitted to the Council of Representatives (CoR, Parliament) for approval. The DG opined that Fadhil's position was akin to "putting a stick in the wheel" of the GOI's efforts to

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increase oil production quickly and no action would be taken on the symposium's recommendations until after Iraq's national elections and the formation of a new government.

The MoO's Unfolding Strategy

¶6. (U) In the meantime, Shahrستاني is proceeding with what he described at the symposium as a three-track process for rapidly increasing oil production: (a) moving forward with a series of bid rounds to invite international oil company (IOC) participation in oil and gas field development; (b) negotiating separate deals directly with some IOCs for development of certain fields that have been kept out of the bid rounds; and (c) having MoO operating companies continue with implementation of an accelerated production plan, including by contracting with oil field service companies.

¶7. (C) Bid Rounds: As various analysts widely expected, the timeline for the first bid round has slipped. An IOC contact advised us that bids will not be due until May and opined that the submission date could slip again until June or July (which means that MoO will miss the original target by at least two months to sign contracts by the end of June). The IOC contact added that a revised bid round model contract had been distributed on March 20, but that few IOC concerns had been addressed, including who can provide security, control over the projects, legal framework, and payment structure.

¶8. (C) Separate Deals: Almost certainly responding to pressure from PM Maliki, MoO also announced March 24 that it had invited a consortium of Chevron and France's Total to compete against Norway's Statoil Hydro to bid for what was described as an engineering, procurement, and construction (EPC) contract for the Nahr Bin Umar oil field. A still-to-be-determined company would also be invited to participate. The Nahr Bin Umar field currently produces around 50,000 barrels per day (bbl/d), but could rise to a production level of 450,000 bbl/d within a few years. The Nahr Bin Umar offer follows on the heels of a similar tender for the Nasiriyah oil field, which is being competed among

Spain's Repsol, Italy's Eni, and a consortium of Japanese companies Nippon Oil, JGC, and Inpex. On March 26, an MoO Director General (DG) told us that a third field, Rafae, was also under negotiation, with a fourth unnamed field to be offered shortly. (Note: Discovered in 1980, Rafae is located in Maysan Province and holds reserves of 100 million barrels.)

New Deputy Minister for Upstream

¶9. (C) The same DG said MoO Inspector General (IG) Abdulkareem Luaibi Bahedh would become the next Deputy Minister (DM) over the upstream sector. The office had been vacant since mid-year 2008, with Oil Minister Advisor Abdulsahab Al-Qutub holding the DM responsibility in an acting capacity. The DG was pleased with the personnel change, noting that Luaibi had a petroleum engineering degree, unlike Qutub and that Qutub had not handled the upstream sector well. Another MoO source had earlier suggested that a condition that Luaibi imposed to accept the appointment was the right to remove current South Oil Company DG Kifah Kamal Nu'man, but we have no confirmation of this information or whether Luaibi was successful with his demand.

¶10. (S) In our view, the appointment is motivated partly by Qutub's declining health, but could also reflect Shahrستاني's dissatisfaction with Qutub's handling of the upstream sector, with oil production declining. The appointment has a positive aspect, since the IG has been more willing to meet with Embassy staff and does not share Qutub's negative opinion of Americans. The IG played an important role on the committee that investigated declining oil production, which resulted in support for recommendations from Deputy Prime Minister Barham Salih's February's Oil Policy Symposium. He could thus be expected to strengthen MoO efforts to implement Barham's reforms. However, Luaibi's past comments indicate reluctance to confront Oil Minister Shahrستاني or to advocate disagreeable or controversial positions, suggesting that he might not be a strong advocate for needed reforms. When the unassuming Luaibi was asked whether Shahrستاني accepts the committee's recommendations, he noted, "the Minister does not have a personality that takes criticism well." On another occasion, Luaibi remarked, "Shahrستاني has a strong will and does not always take the advice of others when he thinks he is right." Luaibi could thus end up playing a balancing act between Shahrستاني and Barham, preferring caution to reform.

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Comment: Fundamental Reforms Needed

¶11. (S) Adoption of the symposium's recommendations or implementation of the MoO's programs will not halt declining oil production or turn the situation around quickly. The current situation is a result of years of under investment in the petroleum sector and resolving problems will take time. In addition to a renewed focus on upstream production, the GOI will need to tackle the fundamental reforms needed to improve MoO operational capability as recommended by the oil policy symposium. The stalemate with KRG continues, however, preventing any meaningful progress on hydrocarbons legislation, which could facilitate foreign investment in the petroleum sector and obviate the need for the key reforms coming from the symposium. According to a KRG source's account of KRG Prime Minister Nechirvan Barzani's point to PM Maliki, progress on hydrocarbons legislation would not be possible as long as Shahrستاني remains Iraqi Minister of Oil.

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